

**REPORT OF THE AUDIT OF THE
FAYETTE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2004**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FAYETTE COUNTY SHERIFF

**For The Year Ended
December 31, 2004**

The Auditor of Public Accounts has completed the Fayette County Sheriff's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statements present fairly, in all material respects, the revenues, and expenditures of the County Sheriff and the revenues, expenditures, and fund balances of the County Sheriff's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting.

Financial Condition:

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a County Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The Fayette County Sheriff had total receipts of \$5,164,191, which was a \$450,772 increase from the prior year. Except for reimbursed expenses in the amount of \$2,453,457, the sheriff paid 25% of receipts to the Fayette County Fiscal Court in the amount of \$699,534. This was a decrease of \$91,706 from the prior year. In addition, disbursements increased by \$3,951.

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Sandra Varellas, Fayette County Judge/Executive
Honorable Kathy H. Witt, Fayette County Sheriff
Members of the Lexington-Fayette Urban County Government Council

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the County Sheriff of Fayette County, Kentucky, and the statement of revenues, expenditures, and fund balances of the County Sheriff's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2004. These financial statements are the responsibility of the County Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the revenues, expenditures, and fund balances of the County Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 1, 2005, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Sandra Varellas, Fayette County Judge/Executive
Honorable Kathy H. Witt, Fayette County Sheriff
Members of the Lexington-Fayette Urban County Government Council

This report is intended solely for the information and use of the County Sheriff, the members of the Lexington-Fayette Urban County Government Council, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 1, 2005

FAYETTE COUNTY
KATHY H. WITT, COUNTY SHERIFF
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

Federal Grants		\$	143,299
State Grants			154,044
State Fees for Services			480,972
State - HB 413 and HB 452 Funds			351,034
Circuit Court Clerk			24,940
County Clerk			13,475
Commission on Taxes			3,236,069
Fees Collected for Services:			
Auto Inspections	\$	107,980	
Serving Papers		106,325	
Carrying Concealed Deadly Weapon Permits		40,960	
Sheriff's Sale and Executions		730	
Sheriff's Advertising Fees		7,020	263,015
			<hr/>
Other Revenues:			
Sale of Equipment	\$	7,080	
Tax Commission Add-On Fees		427,543	
Interest Earned		62,610	
Miscellaneous		110	497,343
			<hr/>
Total Revenues		\$	5,164,191

Expenditures

Payments to State:			
Carrying Concealed Deadly Weapon Permits	\$	27,332	
Jury Meals		5,227	32,559
			<hr/>
Total Expenditures		\$	32,559

The accompanying notes are an integral part of the financial statements.

FAYETTE COUNTY
KATHY H. WITT, COUNTY SHERIFF
STATEMENT OF REVENUES AND EXPENDITURES - REGUALTORY BASIS
For The Year Ended December 31, 2004
(Continued)

Net Revenues		\$ 5,131,632
Payments to State Treasurer:		
75% Operating Fund	\$ 4,462,098	
25% County Fund	<u>669,534</u>	<u>5,131,632</u>
Balance Due at Completion of Audit		<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

FAYETTE COUNTY
KATHY H. WITT, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND
FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2004

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2004	\$ (165,686)	\$	\$ (165,686)
Fees Paid to State - Operating Funds (75%)	4,462,098		4,462,098
Fees Paid to State - County Funds (25%)		669,534	669,534
Total Funds Available	<u>\$ 4,296,412</u>	<u>\$ 669,534</u>	<u>\$ 4,965,946</u>

Expenditures

Payments To Lexington Fayette Urban County Government	\$	\$ 669,534	\$ 669,534
Personnel Services-			
Sheriff's Salary	88,150		88,150
Sheriff's Training Incentive	3,093		3,093
Deputies' Salaries	2,493,530		2,493,530
Overtime Gross	46,657		46,657
Employee Benefits-			
Employer's Share Social Security	194,953		194,953
Employer's Share Retirement	398,455		398,455
Employer's Paid Health Insurance	232,426		232,426
Other Payroll Disbursements	16,397		16,397
Contracted Services-			
Audit	11,386		11,386
Cellular Phone	11,341		11,341
Computer Access	19,546		19,546
Consulting	11,432		11,432
Computer Maintenance	360		360
Internet	2,186		2,186
Maintenance Contract	23,920		23,920
Materials and Supplies-			
Office Supplies	32,094		32,094

The accompanying notes are an integral part of the financial statements.

FAYETTE COUNTY
KATHY H. WITT, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND
FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
For The Year Ended December 31, 2004
(Continued)

<u>Expenditures</u> (Continued)	75% Operating Fund	25% County Fund	Totals
Other Charges-			
Conventions and Travel	\$ 13,352	\$	\$ 13,352
Dues	3,562		3,562
Pager	256		256
Parking	16,570		16,570
Phone Service	21,929		21,929
Postage	5,348		5,348
Radio Equipment	12,295		12,295
Recruiting	1,761		1,761
Rent	10,285		10,285
Tower Rental	9,000		9,000
Uniforms	20,654		20,654
Utilities	4,667		4,667
Waste Management	320		320
VOCA Consultant	9,632		9,632
VAWA Service Contract	3,199		3,199
Miscellaneous	1,743		1,743
Auto Expenses-			
Gasoline	68,206		68,206
Maintenance and Repairs	2,789		2,789
Equipment	3,002		3,002
Insurance	211,828		211,828
Capital Outlay-			
Office Equipment	25,401		25,401
Vehicle	69,270		69,270
Total Expenditures	<u>\$ 4,100,995</u>	<u>\$ 669,534</u>	<u>\$ 4,770,529</u>
Fund Balance - December 31, 2004	<u>\$ 195,417</u>	<u>\$ 0</u>	<u>\$ 195,417</u>

The accompanying notes are an integral part of the financial statements.

FAYETTE COUNTY
KATHY H. WITT, COUNTY SHERIFF
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2004
- Payroll expenditures incurred but not paid

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

FAYETTE COUNTY
KATHY H. WITT, COUNTY SHERIFF
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2004
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent for the first six months and 22.08 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2004, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

FAYETTE COUNTY
KATHY H. WITT, COUNTY SHERIFF
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2004
(Continued)

Note 4. Agreement with Lexington-Fayette Urban County Government

The Sheriff entered into a "Revenue Collection Agreement" on July 1, 2003, with the Lexington-Fayette Urban County Government. This agreement allowed the Division of Revenue to collect all state, county, district, and school property taxes in Fayette County excluding motor vehicle taxes. The agreement stated that the Sheriff shall receive 1% of all school taxes collected, and 10% of the first \$5,000 collected on state property taxes and 4.25% on any amount over the first \$5,000, 10% of the first \$5,000 collected on county property taxes and 4.25% on any amount over the first \$5,000, and \$150,000 for full/partial service district property taxes. This agreement expired June 30, 2004.

A new agreement containing the same terms was entered into on July 1, 2004. That agreement expired June 30, 2005, and as of July 1, 2005, the Sheriff became responsible for tax collection.

Note 5. Rental Agreements

The Sheriff is committed to the following rental agreements as of December 31, 2004: A verbal agreement with The Gibson Company for real property at 340 and 346 South Broadway Park, Lexington, KY. The agreement required a monthly payment of \$935.

The Sheriff also leases storage space for \$1,231 per year and a radio tower for \$9,000 per year.

Note 6. Return Of Fugitive Account

The Sheriff maintains a separate bank account for expenses incurred during the return of fugitives. The Sheriff's Office incurs expenses for these trips and requests reimbursement from the state. These reimbursements are then deposited into this bank account at which time the expenses are paid. Any excess in this account is turned over on a pay in voucher. The beginning balance was \$14,696. There were receipts of \$89,892 and disbursements of \$104,100 leaving a balance of \$488 as of December 31, 2004.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Sandra Varellas, Fayette County Judge/Executive
Honorable Kathy H. Witt, Fayette County Sheriff
Members of the Lexington-Fayette Urban County Government Council

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements - regulatory basis of the Fayette County Sheriff for the year ended December 31, 2004, and have issued our report thereon dated September 1, 2005. The County Sheriff's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fayette County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Fayette County Sheriff's financial statements as of December 31, 2004, are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 1, 2005

